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ACTION PM-04

INFO OCT-01 NEA-10 ISO-00 ACDA-05 AID-05 IGA-02 OMB-01

TRSE-00 EB-07 MC-02 CIAE-00 H-02 INR-07 L-03 NSAE-00

NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 /079 W

----- 107950

P R 301545Z JAN 76

FM AMEMBASSY RABAT

TO SECSTATE WASHDC PRIORITY 7550

INFO SECDEF ISA(SA)DASS(TS)

USCINCEUR ECJ4/7

C O N F I D E N T I A L RABAT 0516

E.O. 11652: GDS

TAGS: MO

SUBJECT: GOM MILITARY PROCUREMENT PLANS: EFFECT ON MOROCCAN ECONOMY

REF (A) 75 RABAT 6279, (B) RABAT A-07, (C) STATE 017013

PARA 6.I. (D) RABAT 0494 PARA 2.C.

1. SUMMARY. REVIEWING REFTEL EVALUATION OF GOM MILITARY PROCUREMENT INTENTIONS ON ABILITY TO PAY AND EFFECTS ON NATIONAL ECONOMIC DEVELOPMENT IN LIGHT OF REF (C) AND PAST-RELEASED BUDGET AND BALANCE OF PAYMENTS PROJECTIONS (REF A), COUNTRY TEAM ASSESSMENT REMAINS BASICALLY UNCHANGED. COMING YEAR WILL BE ONE OF INCREASED BUDGETARY STRINGENCY AND INTENSIFIED CASH-FLOW CRISES. BUT MAIN ELEMENTS OF CURRENT REDUCTION ALREADY TAKEN INTO ACCOUNT IN DECEMBER ANALYSIS. END SUMMARY.

2. PRINCIPAL MODIFYING ELEMENTS REQUIRED PARA 6.I. OF REF (C) FOLLOW:

A. AS RESULT RECENT CLASHES RESULTING FROM ALGERIAN INTERVENTION WELL WITHIN MOROCCO'S CLAIMED (SAHARAN) BORDERS, NATIONAL DEFENSE NEEDS HAVE TAKEN ON INCREASED PRIORITY. CRASH EQUIPMENT PROCUREMENT PROGRAMS ARE UNDERWAY AND US
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DEFENSE CONTRACTORS HAVE INFORMED US THAT SPECIAL FINANCE

MINISTRY CONTINGENCY FUND BEING TAPPED TO PERMIT IMMEDIATE ACQUISITION CERTAIN IMMEDIATE NECESSITY ITEMS. GOM HAS REQUESTED SAUDIS TO ADVANCE TRANSFER OF THIS YEAR'S MILITARY PROCUREMENT GRANT FROM MID-YEAR. ADDITIONAL FUNDS APPARENTLY THUS NOW AVAILABLE TO MILITARY BEYOND 132 PER CENT INCREASE SHOWN IN BUDGET PRESENTATION, IF ANYTHING REINFORCING ARGUMENTATION PRESENTED REF (A) PARA 1.A. MODIFICATION OF FMS PROGRAM LEVEL WOULD NOT RPT NOT PERMIT DIVERSION THESE FUNDS INTO SOCIAL OR DEVELOPMENT NEEDS.

B. ON NEGATIVE SIDE, MILITARY OPERATIONS 125 KM EAST OF BOU CRAA PLUS SABOTAGE OF BELT TRANSPORTER HAVE KEPT MINE OUT OF OPERATION LONGER THAN EXPECTED. WHILE THIS MEANS REVENUES FROM SAHARA PHOSPHATES WILL BE SLOWER IN MATERIALIZING THAN ANTICIPATED, CONTINUING DEPRESSED MARKET FOR ROCK MEANS THERE IS AMPLE SURPLUS CAPACITY AT KHOURIBGA AND YOUSSEFFIA WITHIN FORMER MOROCCAN BORDERS. FISCAL SITUATION THUS NOT YET EASED BY ACQUISITION OF BOU CRAA, BUT MILITARY OPERATIONS BY THEMSELVES HAVE NOT ACTUALLY WORSENERED OVERALL PHOSPHATE REVENUE SITUATION. REF (A) DID NOT COUNT ON IMMEDIATE BOU CRAA REVENUES IN ANY CASE, NOTING "NEXT TWO YEARS WILL REQUIRE ASTUTE FINANCIAL NAVIGATION."

C. FURTHER NEGATIVE ITEM, MILITARY OPERATIONS IN SAHARA AT CURRENT LEVEL AND LIKELIHOOD THAT TENSIONS WILL PERSIST FOR SOME TIME HAVE INTRODUCED ELEMENT OF MAJOR CONCERN IN FINANCIAL COMMUNITY, IMPAIRING LIKELIHOOD THAT GOM WILL BE ABLE TO BORROW IN EUROPE AT INTENDED \$400-\$500 MILLION LEVEL. THIS HAS BECOME OBVIOUS MATTER OF CONCERN FOR ECONOMIC MINISTERS. ON JANUARY 8 GOM REQUESTED 30 MILLION UNIT OF ACCOUNT IMF "GOLD TRANCH" DRAWING AND HASTILY ASSEMBLED IMF TEAM PRESENTLY IN RABAT, SIGNALING URGENCY THIS NEED PRESENTS FOR GOM.

D. SINCE REF (A) ASSESSMENT PREPARED WE HAVE RECEIVED CONFIRMATION THAT LAST YEAR'S SALES OF PHOSPHATE ROCK WERE AT VIRTUALLY PRECISE LEVEL EMPLOYED IN OUR CALCULATIONS (13 M MT ESTIMATE VS 13.1 M MT ACTUAL SALES). EVIDENCE OVERWHELMING HOWEVER THAT FURTHER UNANNOUNCED PRICE CUT CONFIDENTIAL

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HAS TAKEN PLACE FROM CA. \$58/TON TO CA. \$48/TON FOR TOP QUALITY ROCK, WITH POSSIBILITY FURTHER DISCOUNTING FOR LOYAL CUSTOMERS. TONNAGE NOW ESTIMATED TO BE UP HOWEVER TO PERHAPS 16 OR 17 M MT FOR 1976, LEAVING ESTIMATED REVENUES AT ABOUT \$750 MILLION -- UP SLIGHTLY FROM LAST YEAR. BUT PRICE/REVENUE OUTLOOK REMAINS EXTREMELY UNCERTAIN FOR NEXT 18 MONTHS TO 2 YEARS.

E. YEAR-END 1975 GNP GROWTH PROVED SLIGHTLY BETTER THAN EXPECTED, PLUS 2 OR 3 PER CENT INSTEAD OF ZERO. AND OUTLOOK FOR SLIGHTLY BETTER PERFORMANCE, PERHAPS PLUS 5 PER CENT, IN 1976.

3. SUMMING UP: WHILE SOME OF WEIGHTS ATTACHED TO DECEMBER ASSESSMENT HAVE SHIFTED, OVERALL OUTLOOK REMAINS ABOUT AS SEEN BY COUNTRY TEAM AT THAT TIME. MILITARY ACTION HAS MEANTIME WORSENER CLIMATE IN WHICH EXTERNAL FINANCING MUST BE SOUGHT, WHILE NEED FOR EQUIPMENT HAS INTENSIFIED, UNDERLINING PRIORITY ATTACHED BY GOM TO PAYING FOR FMS MATERIEL. YEAR WILL THUS BE ONE OF SLIGHTLY GREATER FINANCIAL STRINGENCY THAN ALREADY SKETCHED, BUT MOROCCAN ECONOMY REMAINS IN FAR LESS VULNERABLE POSITION THAN MOST LDC'S SEEKING FMS AND IT IS ONLY COINCIDENCE OF WORSENER RELATIONS WITH ALGERIA ON TOP OF SOFT WORLD PHOSPHATE MARKET THAT GIVES MAJOR CAUSE FOR CONCERN. ALL INDICATORS ARE FOR GOOD ECONOMIC PERFORMANCE THIS YEAR AND RETURN OF PHOSPHATE DEMAND WITHIN 12 - 24 MONTHS TO EASE MILITARY EQUIPMENT PAYMENTS SITUATION. CASH-CLOW PROBLEMS WILL REMAIN AND PERIODIC PAYMENTS DIFFICULTIES REOCCUR. BUT WERE US FMS PROGRAM REDUCED, WE BELIEVE GOM WOULD ACCORD PAYMENTS TO US LOWER PRIORITY THAN NOW. AS RESULT OUR COLLECTION HEADACHES WOULD NOT DIMINISH AND COULD MOUNT AS WE PUSHED TO END OF THE QUEUE. IN LIGHT OF TOTAL SITUATION, WE CONTINUE TO BELIEVE FMS PROGRAM AT SCHEDULED LEVEL REMAINS JUSTIFIED.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: MILITARY PROCUREMENT, ECONOMIC CONDITIONS, INTELLIGENCE ASSESSMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 30 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: greeneet
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976RABAT00516
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D760036-0287
From: RABAT
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t1976014/aaaaadec.tel
Line Count: 142
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION PM
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 76 RABAT 6279, 76 RABAT A-7, 76 STATE 17013
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUN 2004 by buchant0>; APPROVED <08 OCT 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: GOM MILITARY PROCUREMENT PLANS: EFFECT ON MOROCCAN ECONOMY
TAGS: MPOL, ECON, MO
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006